

Message Text

PAGE 01 STATE 306331
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TAGS: ENRG, PFOR, EGEN

SUBJECT: OPEC OIL PRICE INCREASE

1. AT THEIR DOHA MEETING, DECEMBER 15-17, THE OPEC NATIONS
FAILED TO REACH A CONSENSUS ON THE LEVEL OF NEW PRICE
INCREASES. ELEVEN OF THE THIRTEEN OPEC MEMBERS ANNOUNCED
THEIR INTENTION TO RAISE THE PRICE OF THEIR OIL EXPORTS BY
10 PERCENT AS OF JANUARY 1, 1977 TO BE FOLLOWED BY AN
ADDITIONAL 5 PERCENT INCREASE ON JULY 1, 1977. SAUDI
ARABIA AND THE UAE, ON THE OTHER HAND, SAID THEY WOULD
RAISE PRICES BY ONLY 5 PERCENT.

2. PROVIDED BELOW IS THE STATEMENT ON THE OPEC PRICE
DECISION RELEASED BY THE WHITE HOUSE, EXCERPTS FROM THE
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PAGE 02 STATE 306331

DEPARTMENT'S DECEMBER 17 PRESS BRIEFING , AND TWO ADDI-
TIONAL QUESTIONS AND ANSWERS ON ISSUES ON WHICH THE PRESS
BRIEFING DID NOT FOCUS. POSTS SHOULD DRAW ON THIS MATERIAL
IN RESPONDING TO QUERIES ON THE OPEC PRICE DECISION.

3. WHITE HOUSE STATEMENT -

WHITE HOUSE STATEMENT REGARDING OPEC DECISION TO RAISE
PRICE OF OIL - DECEMBER 17, 1976

WE DEEPLY REGRET OPEC'S DECISION TO RAISE, ONCE AGAIN, THE PRICE OF OIL. WE VERY MUCH APPRECIATE THE EFFORTS OF THOSE OPEC MEMBERS, PARTICULARLY SAUDI ARABIA AND THE UNITED ARAB EMIRATES, WHOSE SENSE OF INTERNATIONAL RESPONSIBILITY AND CONCERN FOR THE ADVERSE IMPACT OF AN OIL PRICE INCREASE ON THE WORLD ECONOMY LED THEM TO ADVOCATE RESTRAINT AND TO REFUSE TO GO ALONG WITH THE INCREASE PROPOSED BY THE OTHERS. UNFORTUNATELY, HOWEVER, THE MAJORITY OF OPEC MEMBERS, CITING ARTIFICIAL ECONOMIC JUSTIFICATIONS AND IGNORING THE DESTRUCTIVE CONSEQUENCES OF THEIR ACTIONS, CHOSE TO TAKE A COURSE WHICH CAN ONLY BE TERMED IRRESPONSIBLE.

THE US HAS JOINED WITH MANY OTHER NATIONS IN AN INTERNATIONAL EFFORT TO IMPROVE THE QUALITY AND DEGREE OF GLOBAL COOPERATION. THE PROSPEROUS WORLD WHICH WE AND OTHER NATIONS SEEK, IN THE INTEREST OF DEVELOPED AND DEVELOPING NATIONS ALIKE, DEPENDS ON A SENSE OF SHARED RESPONSIBILITY. THIS REQUIRES THAT NATIONS AVOID ACTIONS WHICH HARM ONE ANOTHER. IT REQUIRES THAT EVERY COUNTRY UNDERSTAND THAT, IN AN INTERDEPENDENT WORLD, SHORTSIGHTED ACTIONS, HOWEVER SEEMINGLY ATTRACTIVE IN THE NEAR-TERM, CAN HAVE LONG-TERM CONSEQUENCES DETRIMENTAL TO ITS PROSPERITY AND TO THAT OF ALL OTHER COUNTRIES. IT REQUIRES A COMMON LIMITED OFFICIAL USE
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PAGE 03 STATE 306331

COMMITMENT TO THE WELL-BEING OF ALL PEOPLES, AND SPECIAL SENSITIVITY TO THE PLIGHT OF THE WORLD'S POOREST SOCIETIES. THE DECISION OF THE OPEC MAJORITY CLEARLY DOES NOT MEET SUCH STANDARDS OF INTERNATIONAL RESPONSIBILITY.

FOR OUR PART THIS LATEST PRICE INCREASE CAN ONLY SERVE AS A SHARP REMINDER FOR ALL AMERICANS OF THE NEED TO TAKE URGENT ACTION TO STRENGTHEN OUR CONSERVATION EFFORTS AND DEVELOP NEW SOURCES OF ENERGY IN ORDER TO REDUCE OUR DEPENDENCE. AND IT MUST SERVE AS A REMINDER TO ALL OIL-CONSUMING NATIONS OF THE NEED TO WORK CLOSELY TOGETHER TO REDUCE OUR RELIANCE ON IMPORTED OIL AND OUR VULNERABILITY TO ARBITRARY OPEC DECISIONS.

4. EXCERPTS FROM DECEMBER 17 STATE DEPARTMENT PRESS CONFERENCE (STATEMENTS ON "BACKGROUND" ARE ATTRIBUTABLE TO STATE DEPARTMENT OFFICIALS BUT ARE NOT FOR DIRECT QUOTATION).

Q. BOB, DO YOU WANT TO GO THROUGH YOUR DRILL ON OPEC

THERE THAT YOU HAVE SO WE CAN --

A. THE WHITE HOUSE ISSUED A STATEMENT TODAY WHICH REFLECTED THE ADMINISTRATION'S POSITION OF REGRET OVER THE OIL PRICE RISE. I WILL TRY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

Q. YAMANI APPARENTLY INDICATED THAT HE CONSIDERS THE SAUDI ACTION AS KIND OF A LEVER OR A TRADE OR SOMETHING ON WHICH HE WOULD EXPECT SOME CONSIDERATION IN MIDDLE EAST NEGOTIATIONS AND WITH THE CIEC SITUATION. DO YOU HAVE ANY REACTION TO THAT KIND OF LINKAGE?

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PAGE 04 STATE 306331

A. FIRST, I DO NOT KNOW THAT HE ESTABLISHED ANY DIRECT LINKAGE. IN ANY CASE, EACH PROBLEM STANDS ON ITS OWN. THERE IS NOT ANY LINKAGE.

FIRST, THOUGH, I WOULD LIKE TO SAY THAT THE DECISION BY SAUDI ARABIA AND THE UNITED ARAB EMIRATES TO LIMIT THE INCREASE IN THE PRICE OF THEIR OIL TO FIVE PERCENT REFLECTS, WE THINK, A STATESMANLIKE RECOGNITION BY THEM OF THE CRITICAL RELATIONSHIP BETWEEN THE LEVEL OF OIL PRICES AND THE WORLD ECONOMY. BUT EVEN THIS INCREASE IS MORE THAN WE BELIEVE WAS WARRANTED. AT THE SAME TIME, THESE TWO COUNTRIES HAVE SHOWN A LAUDABLE WILLINGNESS TO ACCEPT THEIR SHARE OF RESPONSIBILITY FOR WORLD GROWTH AND STABILITY.

AS FAR AS THE U.S. COMMITMENT TO SEEKING PEACE IN THE MIDDLE EAST, AS WELL AS OUR ATTEMPT PRIMARILY THROUGH CIEC TO WORK OUT PROBLEMS AFFECTING THE DEVELOPMENT PROSPECTS OF THE DEVELOPING COUNTRIES, WE REMAIN COMMITTED ON BOTH-- AS I THINK WE HAVE CONSISTENTLY. AND I THINK BOTH OF THESE INITIATIVES HAVE GENERALLY ENJOYED BROAD BIPARTISAN SUPPORT.

WE HAVE WELCOMED AND WE APPRECIATE SUPPORT SAUDI ARABIA HAS GIVEN AMERICAN DIPLOMATIC EFFORTS IN THE MIDDLE EAST PROCESS AND WE HOPE IT WILL CONTINUE. BUT I WANT TO EMPHASIZE THAT WE REMAIN COMMITTED TO HELPING IN ANY WAY WE CAN TO ACHIEVE PROGRESS TOWARDS A NEGOTIATED SETTLEMENT IN THE ARAB-ISRAELI DISPUTE AS WELL AS WE

WOULD HOPE THAT PROGRESS WOULD BE MADE IN THE NORTH/ SOUTH DIALOGUE.

I MIGHT ADD AS FOR THE MIDDLE EAST QUESTION, WE HAVE BEEN PLEASED THAT VARIOUS PARTIES TO THE DISPUTE --BOTH ARAB

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PAGE 05 STATE 306331

AND ISRAELI LEADERS -- HAVE BEEN EXPRESSING THE VIEW THAT THE TIME IS PROPITIOUS FOR PROGRESS.

I AM NOT IN A POSITION TO COMMENT ON ANY SPECIFIC PROPOSALS THAT HAVE BEEN MADE OR ABLE TO DISCUSS WHAT WE MIGHT DO BUT TO RECONFIRM THAT THE U.S. GOVERNMENT REMAINS COMMITTED TO DOING WHAT IT CAN TO PROMOTE A PEACEFUL SETTLEMENT IN THE MIDDLE EAST.

Q. BOB, WILL THE UNITED STATES NOW CONTINUE -- WILL IT PAY ONLY THE PRICE THAT THE SAUDIS HAVE SET -- THE SAUDIS AND THE EMIRATES?

A. WELL THE PROBLEM --

Q. WILL THEY BUY VENEZUELAN OIL, FOR INSTANCE, AT THE NEW PRICE?

A. THE PROBLEM -- I DON'T THINK ANYONE HAS REALLY BEEN ABLE TO ANALYZE THE ECONOMIC IMPACT IN THIS BECAUSE OIL COMES FROM VARIOUS SOURCES.

FOR EXAMPLE, I UNDERSTAND WE GET ABOUT A MILLION AND A HALF BARRELS PER DAY FROM SAUDI ARABIA AND THE UNITED ARAB EMIRATES, WHICH REPRESENTS --

Q. ONE AND A HALF MILLION, OR BILLION, SIR?

A. ONE AND A HALF MILLION -- WHICH REPRESENTS ABOUT 30 PERCENT OF OUR IMPORTS FROM OPEC STATES AND ONLY 23 PERCENT OF OUR TOTAL IMPORTS.

I THINK I HAD BETTER GO ON BACKGROUND. MY UNDERSTANDING OF WHAT WILL HAPPEN, KEN, IS THAT AS THIS SORTS OUT, THERE WILL BE A BLEND, BECAUSE SOURCES COME FROM BOTH SAUDI ARABIA AND THE UNITED ARAB EMIRATES, AS WELL AS THE OTHER LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 06 STATE 306331

OIL PRODUCING COUNTRIES -- SO THAT THERE COULD BE AN INCREASE BETWEEN 5 AND 10 PERCENT.

Q. WELL, MY QUESTION REALLY IS: WILL THERE BE A MAJOR SWITCH IN AMERICAN PURCHASES FROM THE ELEVEN? VENEZUELA IS ONE OF THE MAJOR ONES WE BUY OIL FROM. WILL WE BUY MUCH LESS NOW, OF VENEZUELAN OIL AND TURN MORE, AND MORE, TO THE SAUDIS AND THE EMIRATES?

A. AGAIN ON BACKGROUND: I WOULD EXPECT THE OIL COMPANIES WILL CLEARLY WANT TO BUY AS MUCH OF THE LESS EXPENSIVE SAUDI AND UAE OIL AS POSSIBLE. AND I HAVE ALSO NOTED THAT THE SAUDIS HAVE SAID THAT THEY HAVE UNUSED CAPACITY AND THAT THEY ARE PREPARED TO INCREASE PRODUCTION.

BUT AGAIN, WE WILL HAVE TO WAIT AND SEE HOW THAT ACTUALLY WORKS OUT IN THE MARKETPLACE.

OUR CONSUMPTION IS ABOUT SEVENTEEN MILLION BARRELS A DAY, I THINK, AND WE HAVE BEEN IMPORTING ABOUT SEVEN MILLION BARRELS. SO WE ARE IMPORTING ABOUT 40 PERCENT OF OUR CONSUMPTION -- AND AS I INDICATED, A MILLION AND A HALF OF THAT COMES FROM SAUDI ARABIA AND THE UNITED ARAB EMIRATES AND THE REMAINDER OF THE IMPORTS FROM THE REST OF OPEC. SO YOU SEE, THERE IS A MIX IN OUR OWN IMPORTS.

Q. BOB, IS THERE CONCERN AT ALL, IN THE STATE DEPARTMENT, THAT THIS SPLIT AMONG THE OPEC NATIONS MAY SPILL OVER AND DISRUPT SOME OF THE PROGRESS THAT HAS BEEN MADE TOWARD UNITY IN THE APPROACH TOWARD THE MIDDLE EAST SETTLEMENT? THE POLITICAL SETTLEMENT?

A. ON BACKGROUND, I THINK IT MAY BE PREMATURE TO TALK ABOUT A "SPLIT" IN OPEC. THEY CERTAINLY HAVE HAD A LIMITED OFFICIAL USE
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PAGE 07 STATE 306331

DIFFERENCE OF OPINION ON PRICE -- BUT OUR IMMEDIATE REACTION REALLY, IS THE ECONOMIC IMPACT OF THE ACTION.

AND I MUST SAY THAT EVEN WITH THE LOW PRICE THE OVERALL ECONOMIC EFFECT IS SERIOUS -- EVEN AT 5 PERCENT. BUT AGAIN, OBVIOUSLY, IT COULD HAVE BEEN WORSE BUT IT STILL REMAINS SERIOUS.

Q. WHEN YOU FIRST WENT ON BACKGROUND, YOU GAVE A FIGURE OF 5 TO 10 PERCENT INCREASE IN PURCHASES FROM SAUDI ARABIA AND UAE --

A. NO, WHAT I WAS SAYING ON BACKGROUND -- FIRST THE QUESTION WAS: HOW MUCH THE INCREASE BE IN OUR OWN COST?

AND IT IS A COMPLICATED PROBLEM BECAUSE YOU HAVE SOME OIL THAT WILL BE PRESUMABLY PURCHASES AT A 5 PERCENT INCREASE AND OTHER OIL THAT IS GOING TO BE PURCHASED AT A 10 PERCENT INCREASE -- AND WE ARE CONSUMING BOTH. SO THERE WILL BE SOME SORT OF BLEND, AND I AM SURE THE OIL

COMPANIES, THEMSELVES, HAVE NOT SORTED IT OUT. END BACKGROUND.

Q. ARE YOU DISAPPOINTED THAT THE PRICE WENT UP AT ALL?

A. YES, THAT CLEARLY COMES OUT IN THE WHITE HOUSE STATEMENT, MARVIN.

Q. RIGHT.

A. -- THAT WE DO NOT BELIEVE THERE WAS ANY ECONOMIC JUSTIFICATION FOR ANY PRICE INCREASE. AND WE CLEARLY WOULD HAVE PREFERRED IF THEY HAD NOT CHOSEN TO RAISE PRICES BY ANY AMOUNT.

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PAGE 08 STATE 306331

Q. THAT IT (THE OIL PRICE DECISION) COULD HAVE BEEN WORSE IS WHAT YOU ARE SAYING?

A. YES, AND THE FACT THAT SAUDI ARABIA AND THE UNITED ARAB EMIRATES WERE ALONE IN RESISTING AN INCREASE AND THAT THEY HAVE DECIDED TO RAISE 5 PERCENT. BUT AGAIN I COUPLED MY STATEMENT ABOUT SAUDI ARABIA BY SAYING THAT WE BELIEVE THAT ANY INCREASE WAS UNWARRANTED.

Q. BOB, ON THAT SAME POINT, DO WE ACCEPT AS FACT WHAT YAMANI IS REPORTED TO HAVE SAID TODAY, THAT THE 5 PERCENT HAS ALREADY BEEN IN EFFECT FOR SOME WEEKS OR MONTHS AS A RESULT OF THE MARKET MOVEMENTS?

A. ON BACKGROUND. I DON'T PRESUME TO BE AN EXPERT ON OIL, BUT IT IS MY UNDERSTANDING THAT THE REASON THAT PURCHASERS WERE PAYING MORE THAN THE LANDED PRICE OR MORE THAN 5 PERCENT WAS IN ANTICIPATION OF AN INCREASE. SO, I THINK THIS IS THE EXPLANATION OF THE 5 PERCENT PREMIUM WHICH PEOPLE HAVE BEEN PREPARED TO PAY FOR SAUDI OIL.

Q. IN OTHER WORDS, HEDGING AGAINST A LARGER INCREASE?

A. RIGHT, THAT IS MY UNDERSTANDING. END BACKGROUND.

Q. I HAVE ONE MORE QUESTION ON THE SUBJECT, IS THIS ADMINISTRATION AWARE OF THE CONTENT OF THE DISCUSSIONS THAT TOOK PLACE BETWEEN MR. VANCE AND THE SAUDI ARABIAN AMBASSADOR?

A. I BELIEVE MR. VANCE DISCUSSED THAT WITH THE SECRETARY, YES.

Q. SO, IT WAS A COORDINATED DISCUSSION?

A. I WOULD NOT DESCRIBE IT AS COORDINATED, NO, BUT I

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PAGE 09 STATE 306331

KNOW THAT THE SUBJECT OF OPEC AND I BELIEVE MR. VANCE'S MEETING WITH THE SAUDI ARABIAN AMBASSADOR, THAT MR. VANCE DISCUSSED THIS WITH THE SECRETARY. BUT, I WOULD NOT DESCRIBE IT AS COORDINATED.

Q. WERE THE DISCUSSIONS BETWEEN VANCE AND KISSINGER ON THIS SUBJECT BEFORE OR AFTER THE TIME, WHICH I BELIEVE WAS LAST TUESDAY, WHEN VANCE SAW THE SAUDI ARABIAN AMBASSADOR? DID HE REPORT BACK TO KISSINGER AFTER?

A. I AM NOT CHARACTERIZING IT AS ANY QUESTION OF COORDINATION OR REPORTING BACK. BUT I AM CONFIRMING THAT THE GENERAL SUBJECT OF A POSSIBLE OIL PRICE RISE WAS DISCUSSED BY THE SECRETARY AND MR. VANCE ON THE TELEPHONE BEFORE HE MET WITH THE SAUDI ARABIA AMBASSADOR. BUT, I DO NOT KNOW THAT THERE WAS ANY DIRECT EXCHANGE REGARDING THAT MEETING -- OR HOW DETAILED IT WAS.

WE, AS YOU KNOW, HAVE HAD RATHER EXTENSIVE CONVERSATIONS AND CONSULTATIONS WITH BOTH OIL CONSUMERS AND OIL PRODUCERS INCLUDING SAUDI ARABIA AND WHILE WE DID NOT HAVE ANY ADVANCE WORD ON WHAT SHEIKH YAMANI WAS GOING TO SAY WHEN HE ARRIVED WHEN HE SAID THAT SAUDI ARABIA WOULD OPPOSE ANY OIL PRICE INCREASE, WE DID HAVE A GENERAL IDEA OF WHAT THE SAUDI POSITION WOULD BE BEFORE THE CONFERENCE BEGAN AS A RESULT OF OUR CONVERSATIONS.

Q. WAS IT INDICATED THAT THEY MIGHT HAVE TO SETTLE FOR A 5 PERCENT?

A. I JUST DO NOT HAVE THAT KIND OF DETAILED INFORMATION.

5. ADDITIONAL GUIDANCE Q'S AND A'S:

Q. WHAT ABOUT REPORTS THAT THE PRICE WILL BE INCREASED BY A FURTHER FIVE PERCENT IN JULY?

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PAGE 10 STATE 306331

A. WE UNDERSTAND THAT ELEVEN OF THE MEMBERS OF OPEC -- NOT INCLUDING SAUDI ARABIA AND THE UAE, PLAN TO INCREASE THE PRICE OF THEIR OIL BY A FURTHER FIVE PERCENT IN JULY 1977. IF THESE REPORTS ARE ACCURATE, IT IS UNFORTUNATE THAT THE PRODUCERS HAVE DECIDED THAT THEY WILL REOPEN THE ISSUE OF A PRICE INCREASE IN JUST A FEW MONTHS. THIS WILL CREATE FURTHER UNCERTAINTIES THAT WILL MAKE GLOBAL ECONOMIC RECOVERY MORE DIFFICULT.

Q. DO YOU HAVE ANY COMMENT ON YAMANI'S STATEMENT THAT SAUDI ARABIA EXPECTS THE INDUSTRIALIZED COUNTRIES TO SHOW THEIR APPRECIATION FOR THE SAUDI RESTRAINT ON OIL PRICES IN THE NORTH/SOUTH DIALOGUE IN PARIS?

A. WE RECOGNIZE THAT SAUDI ARABIA AND THE UAE HAVE DEMONSTRATED AN UNDERSTANDING OF THEIR IMPORTANT GLOBAL RESPONSIBILITIES BY FOLLOWING A POLICY OF RESTRAINT ON THE OIL PRICE QUESTION. IN THE PARIS CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION, WE ARE SEEKING TO PRODUCE CONCRETE AND MUTUALLY SATISFACTORY SOLUTIONS TO A NUMBER OF MAJOR INTERNATIONAL ECONOMIC PROBLEMS, PARTICULARLY THOSE AFFECTING THE DEVELOPMENT PROSPECTS OF THE DEVELOPING COUNTRIES. THE U.S. WILL JUDGE THESE PROBLEMS AND POSSIBLE SOLUTIONS ON THEIR MERITS, ADVANCING PROPOSALS WHICH WE BELIEVE ARE CONSISTENT WITH THE WELL-BEING OF THE WORLD ECONOMY AND RESPONSIVE TO THE REAL NEEDS OF THE DEVELOPING COUNTRIES. HOWEVER, WE DO NOT BELIEVE THAT THERE IS OR SHOULD BE ANY RELATIONSHIP BETWEEN WHAT WE ARE TRYING TO ACCOMPLISH IN THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION IN PARIS AND OTHER AREAS OF THE NORTH/SOUTH DIALOGUE AND DECISIONS BY OPEC ON OIL PRICE INCREASES.

OPEC PRICE DECISIONS, AS WE HAVE JUST SEEN, ARE MADE UNILATERALLY BY THE OIL EXPORTING COUNTRIES, AND MOST OF LIMITED OFFICIAL USE
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PAGE 11 STATE 306331

THE OPEC COUNTRIES HAVE JUST DEMONSTRATED THAT THEY HAVE NOT YET ACCEPTED THEIR SHARE OF COMMON RESPONSIBILITY FOR WORLD ECONOMIC WELL-BEING. THE NOTION THAT THESE DECISIONS SHOULD SOMEHOW REFLECT A JUDGMENT BY OPEC ON THE PERFORMANCE OF THE INDUSTRIALIZED COUNTRIES IN THE NORTH/SOUTH DIALOGUE IS ILLOGICAL. ANY INCREASE IN OIL PRICES DOES, OF COURSE, HAVE ADVERSE IMPACT ON THE INDUSTRIALIZED ECONOMIES. BUT ITS IMPACT IS MOST SERIOUS IN THE CASE OF THE NON-OIL IMPORTING DEVELOPING COUNTRIES AND, COMING AFTER THE ENORMOUS INCREASES OF RECENT YEARS, FURTHER STUNTS THEIR DEVELOPMENT PROSPECTS. THESE COUNTRIES SUFFER IN THREE WAYS: FROM AN INCREASE IN OIL COSTS, FROM HIGHER NON-OIL IMPORTS COSTS AND FROM LOSS OF EXPORT OPPORTUNITIES IN A WORLD OF SLOWED GROWTH.
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